Market boon due as Social Security rises

By Joel Chernoff and Nicky Robertshaw

WASHINGTON — Assets of the Social Security trust funds will balance the federal budget deficit by the mid-1990s, buoying both bond and stock markets and providing a desperately needed source of national savings.

Thought to be near the brink of bankruptcy five years ago, the accumulated reserves of the Old Age, Survivors and Disability Insurance Fund now are projected to grow to $109 billion this year, $155 billion in 1989, $1.4 trillion in 2000 and $12 trillion in 2030, according to the "intermediate" set of assumptions issued by the Social Security Administration.

Wall Street hasn't picked up on the staggering capital market implications of that growth.

"The capital markets don't look very far ahead and have a great deal of skepticism" that the assets will accumulate undisturbed by the federal government, said Herbert Stein, a former chairman of the Council of Economic Advisers and senior fellow at the American Enterprise Institute, Washington.

With such a huge source of financing for federal debt because the funds are prohibited from investing in anything except special U.S. Treasury issues, the U.S. government's drain on capital markets might shrink drastically. In fact, the funds' expected growth eventually could overwhelm federal debt markets, and spill over into other areas of the economy, especially if Social Security assets ever are allowed to be used to purchase corporate equities.

"If we talk about $12 trillion, that could easily be more than what's available in federal securities," said James Tobin, a Nobel laureate and Sterling Professor of Economics at Yale University, New Haven, Conn. The total U.S. deficit now is about $2 trillion.

Today's concerns are a far cry from those of the late 1970s and early 1980s, when market economists worried Treasury debt would "crowd out" corporate borrowers.

"In a couple of years, people will be complaining there aren't enough government bonds around," predicted Edward Yardeni, chief economist at Prudential-Bache Securities Inc., New York.

Even the shorter-term potential of the Social Security accumulations have far-reaching implications for Wall Street.

Decreased federal demand for outside capital could result in lower interest rates, meaning cheaper sources of financing for corporations. In turn, equity markets could appear more attractive as relative yields offered by bonds decrease.

Interest rates for long-term bonds could decrease 200 basis points within the next two years, to 7%, and to 5% to 6% within the next five years, Mr. Yardeni said.

Lawrence Kudlow, chief economist for Bear, Stearns & Co. Inc., New York, agreed, noting not only may interest rates drop to 5% to 6%, but also the growing Social Security trust funds will eliminate needs for tax increases.

There are risks as well. If Washington tries to cut back federal

Continued on page 46

$20 billion sought for financing wave

By Marcia Parker

Investment and commercial banking firms and insurers are in the process of raising more than $20 billion from institutional investors to finance a new surge of leveraged buy-outs and corporate restructurings.

The accumulation of money suggests the leveraged buy-out wave that has roiled American industry for five years will continue to change the face of corporations and the capital markets.

Participation in corporate finance investments has become so significant for some investors they are defining the investments as a separate asset class. Edward Regan, New York state comptroller and overseer of the $38.7 billion New York State & Local Retirement System, and Brian Wruble, president of Equitable Capital Management Corp., New York, have been developing selection and evaluation criteria tailored to these corporate finance investments.

The investment pools are attracting institutional investors looking for ways to boost their returns. These institutions are drawn by the high returns earned in previous buy-out funds.

Competition for the institutional dollar and for the deals is raising the returns demanded by the institutions and the prices on some deals.

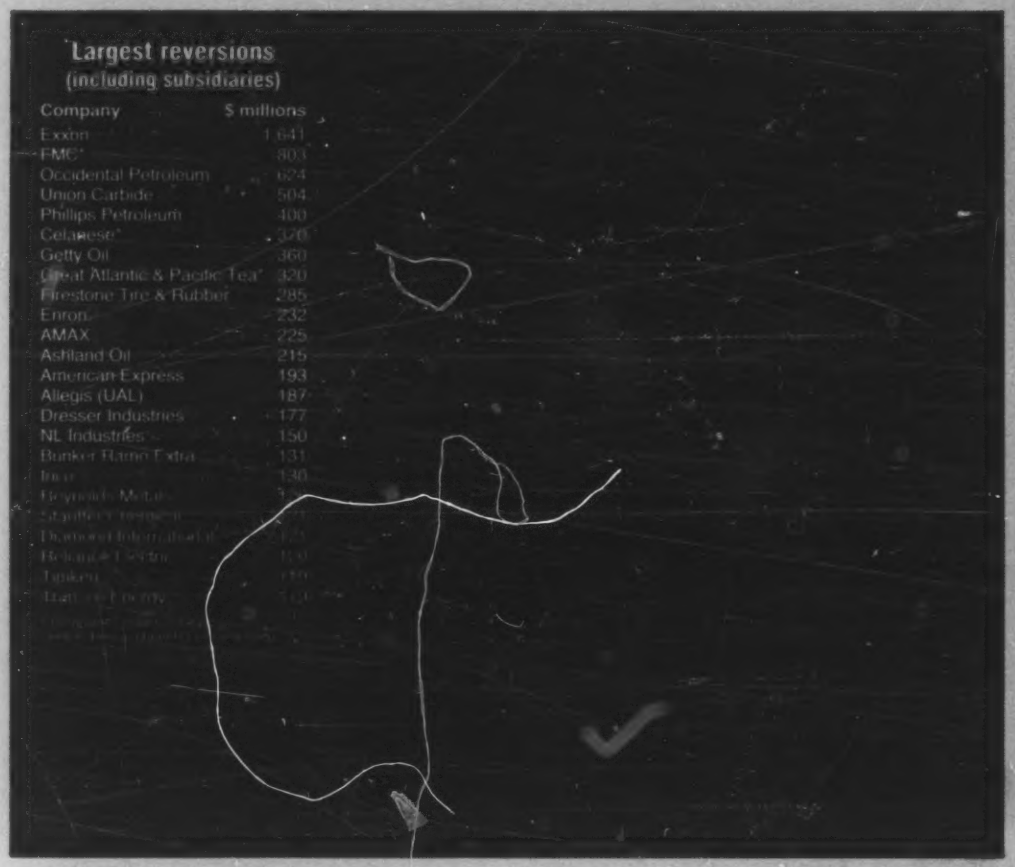
The $20 billion consists of at least $7.5 billion being raised by major investment and commercial banking firms and $12 billion being raised by investment banking boutiques.

Among the fund raisers are Shearson Lehman Hutton Inc., Equitable, Morgan Stanley Group Inc., Manufacturers Hanover Corp., Prudential-Bache Capital Funding and Merrill Lynch Capital Partners.

Others, including First Boston Corp., have billions of dollars available for leveraged buy-outs, but the assets are not in blind pools like its competitors.

Together, they aim to raise more than $7.5 billion from corporations, corporate pension funds, insurance companies and institutional investors from abroad. Fund-raisers were reluctant to identify institutional investors, in part

Continued on page 45



Occidental's plan to recoup $95.5 million is just the latest in a series of terminations. The energy firm has received $528.5 million since 1983, equal to 23% of its cumulative net income from 1983 to 1987.

Occidental gets 13th reversion

By Barry B. Burr

Occidental Petroleum Co.'s move to recapture $95.5 million in surplus assets by terminating one of its last remaining pension plans — the largest such reversion in almost a year — could be a sign the termination/reversion era is still alive.

Occidental, a Los Angeles energy concern, is aggressive among corporations in terminating pension plans and recouping assets after it acquires companies.

Including its latest filing, Occidental will have recaptured more than $624 million from terminating 13 plans since 1983. Excluding the pending termination, the $528.5 million Occidental has recaptured is equal to 23% of the company's cumulative net income from 1983 to 1987.

Its pending termination would eliminate nearly all of Occidental's remaining $465 million in pension assets and $332 million accrued liabilities, using an 8% discount rate, according to its financial statements as of Dec. 31.

The plan being terminated — from Midcon Corp., Lombard, Ill., a company Occidental acquired in 1986 — has $382 million in assets and present value liabilities totaling $286.5 million, according to the Pension Benefit Guaranty Corp., Washington.

Pension industry executives are divided on whether terminations will surge again.

"My view is perhaps you will see an increase in terminations," said Stephen Cordy, senior associate-pension group at Morgan Stanley & Co., New York.

He suggested terminations could increase if the economy starts slumping, interest rates rise and tighter restrictions on reversions appear close to enactment in Congress, where two bills are pending.

But Ellen Goldstein, director-public affairs and membership development for the Association of Private Pension and Welfare Plans, the Washington-based corporate trade group, said employers "are not standing around waiting to terminate their plans."

Said Gary Pines, consultant at Towers, Perrin, Forster & Crosby Inc., Chicago: "If anyone is looking at a surplus and deciding whether to terminate and get the money, they definitely have to consider the bills in Congress."

Although passage of the bills is uncertain, sponsors "have got to take into account that at any point in time these bills could pass," Mr. Pines added.

"I don't necessarily subscribe to this view, but I've heard suggestions that because of pending legislation, those considering terminating might want to do it right away because they fear it will be illegal or more restrictive," said Joseph S. Piacentini, research analyst at the Employee Benefit Research Institute, Washington.

"There are so many variables it's hard to say what the trend will be," he added.

The bills, pending in subcommittees in the Senate and House, would place a one-year moratorium on recaptures until Congress decides if reversions should be shared with beneficiaries (*Pensions & Investment Age*, March 7).

The bills, HR 4111 and S 2284, "stop everything from going on for a year until new legislation is put in place," said Kelly Ring, research assistant for the retirement income and employment subcommittee of the House Select Committee on Aging.

That new legislation could be HR 1942, introduced last year by Rep. Edward Roybal, D-Calif., chairman of the committee on aging. The bill, pending before a subcommittee, would disallow any corporate reversions, requiring all surplus assets go to beneficiaries.

The APPWP's Ms. Goldstein said "passage seems unlikely this year" for the moratorium bills. "They've seemed to have stalled; I don't know why."

"The position of employers has been made clear all along; the assets belong to them," she said.

"They take the risk in good times and bad, and they don't want legislation restricting their control of their assets.

"Most pension sponsors don't want to terminate their plans."

With its latest move, Occidental tied with Dresser Industries Inc., Dallas, for the most plan terminations, according to PBGC data since December 1983.

Dresser has recaptured $177.2 million in its 13 plan terminations between 1985 and 1987.

AMAX Inc., Greenwich, Conn., the next most prolific terminator, has recaptured $224.5 million in reversions from 10 plans between 1983 and 1987.

Only two other companies have recaptured more from reversions than Occidental.

Exxon Corp., New York, recaptured the largest amount ever, $1.64 billion in 1986; and FMC Corp., Chicago, recovered $803 million, including $470 million in FMC stock, in 1985. FMC, however, was required to pay an undisclosed share of the reversion to the Department of Defense, under a rule imposed in 1986 on defense contractors.

Overall, corporate terminations of overfunded plans have been slowing because of new fed-

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GTE fee change hits few bumps

STAMFORD, Conn. — Although one management firm reportedly has balked, the $11 billion GTE Corp. pension fund is encountering little resistance to converting its 24 domestic equity managers to performance-based fees, GTE's pension chief said.

"It's taking a little time, but we're still working with everyone, and it's still on schedule," said John Carroll, president of GTE Investment Management Corp., Stamford, Conn.

One manager reportedly proposed cutting fees by 25% to avoid performance fees. The identity of the manager could not be learned, and Mr. Carroll declined to comment on that report.

"It's not appropriate for us to comment on a manager's strategy," he said. "I can say that all of our managers are still with us. Many have agreed (to performance-based fees), and we are working with the others.

"We're doing this in stages, and we expect to have everyone completed by the end of the year."

Investment management consultants say they have experienced no increase in inquiries regarding performance-based fees; fees are negotiated on a case-by-case basis by the pension funds and their managers.

GTE managers contacted by *Pensions & Investment Age* seemed amenable to the conversion to performance-based fees.

"I think that unless it's really off the wall, most managers go along" with performance-based fees, said Frank Houghton, chairman, BMI Capital Corp., New York.

CORRECTIONS

• In a May 16 article, **Oppenheimer Capital Corp.**'s performance for the 12 months ended March 31 was identified incorrectly as its performance for the year ended Dec. 31. For calendar year 1987, Oppenheimer returned 4.8%.

• In a May 16 story, the amount of tax-exempt assets managed by **Ariel Capital Management Inc.**, Chicago, was incorrect. The correct figure is $353 million.

• The May 23 profile on **The Principal** contained incorrect data. The correct profile follows:

The Principal
711 High St., Des Moines, Iowa 50309; (515) 247-5041

Total assets managed	$18,216,000,000
Tax-exempt assets managed:	
Total	$12,209,000,000
Pooled accounts	$829,000,000
GICs	$4,175,000,000
Annuities	$2,930,000,000
Other	$4,275,000,000
401(k)/457 assets managed	$1,865,000,000
401(k)/457 clients	3,353
Real estate assets	$218,800,000
International assets managed	$18,000,000
Tax-exempt clients	3,534
Types of accounts managed	CEG

The Principal is an equity, fixed-income, balanced, real estate, international and GIC manager.

Its top-down, value-oriented equity approach is determined by relating current price to estimated future return on net worth.

Its fixed-income approach is fundamental, using both public and private markets and focusing on interest rates, credit risk, maturities and terms.

Its real estate approach emphasizes newly constructed, fully leased buildings of less than $15 million. It focuses on low leverage with national diversification.

The separate account asset mix Jan. 1 was 2% stocks, 2% bonds, 59% cash, 10% equity real estate, 16% mortgages and 11% private placements; $18 million was in foreign stocks.

The parent is The Principal Financial Group.

Roy Ehrle, executive vice president, is the chief investment officer; F. Doug Rasmussen is client contact.

• **J.P. Morgan Investment Management Inc.**'s international assets were incorrectly stated in the May 23 issue. Its $2.9 billion would have placed the firm third in the list of the 25 largest managers of international assets.

• **Batterymarch Financial Management** ranks 58th among the nation's 100 largest investment managers. Its position was incorrect in the May 23 issue.

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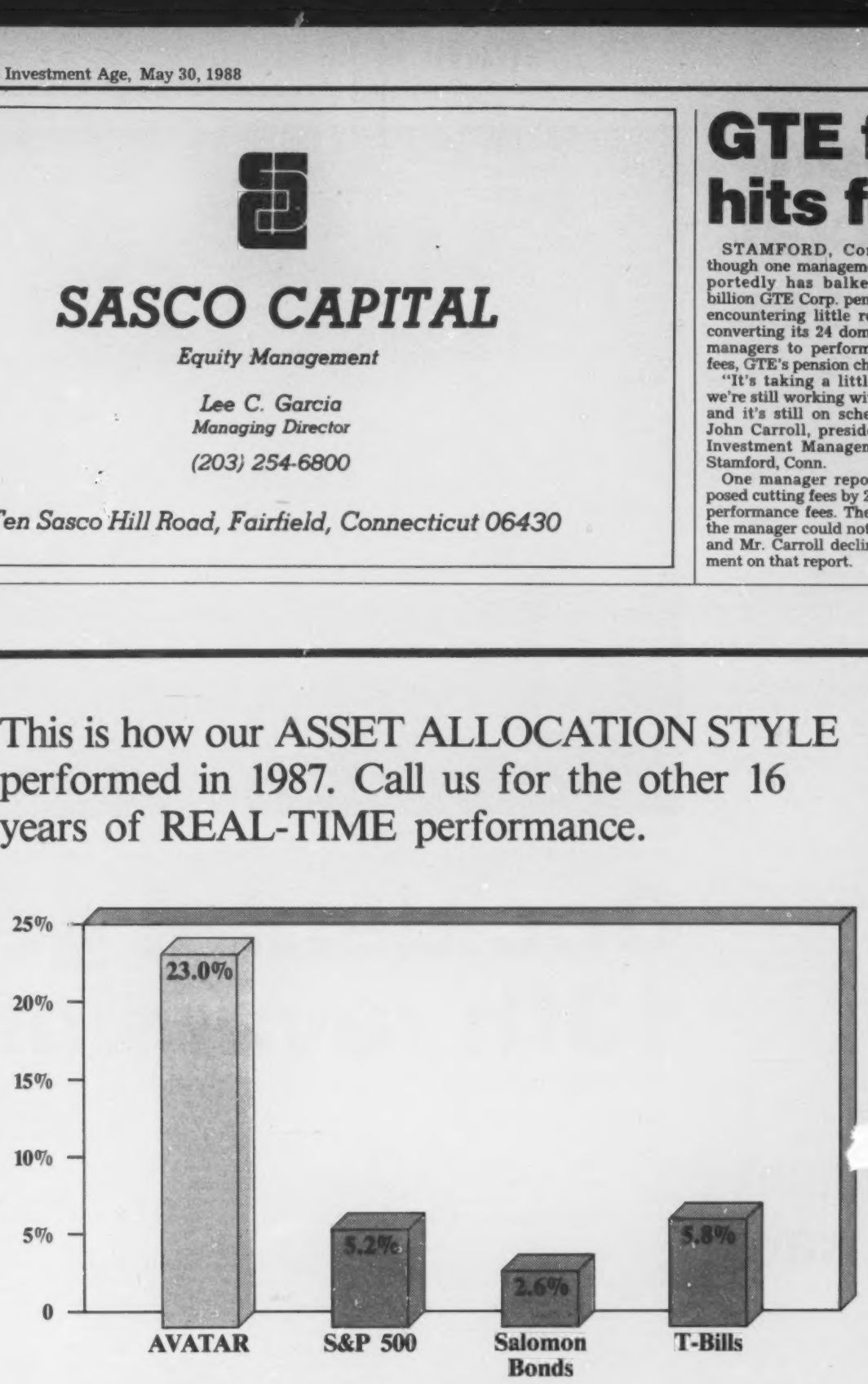

Performance is the mean time-weighted total rates of return of all discretionary tax-exempt accounts over $1 million. Past performance is no guarantee of future results.

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PIPER

Takeover fever fuels winners

By Curtis Vosti

Patience — and a little help from takeover frenzy — helped some bank and insurance company commingled special equity funds climb to the top of Pensions and Investments' Performance Evaluation Report for the first quarter.

The $8.3 million Diversified Special Value fund of First Wachovia Bank, Winston-Salem, N.C., was the top performer of the 106 special equity funds tracked by PIPER, with a 25.2% return for the quarter.

In comparison, the median PIPER fund returned 12.2%; the Standard & Poor's 500 stock index, 5.7%; and the Russell 2000, 18.7%.

First Wachovia's fund contains about 30 stocks, said George M. Salley, First Wachovia vice president and senior portfolio manager. It stresses companies with low price-book and price-earnings ratios and unrealized value.

"I'll buy a stock and stick with it until something happens," Mr. Salley said. The fund's top performers in the quarter included **Stop & Shop Companies Inc.** and regional banks such as **Fidelity Federal S&L Association** and **Atlantic American Corp.**, he said.

First Wachovia's fund also has holdings in **The Williams Cos.**, and **Zayre Corp.**, he said.

The $26 million Supplemental Equity fund of Connecticut National Bank, Hartford, ranked second for the quarter with a 23.9% return.

The fund consists of approximately 100 stocks, according to Peter Larson, vice president. Mr. Larson attributed the fund's strong performance to two main factors: a willingness to stay relatively fully invested and the fund's small-capitalization characteristics.

He said the fund's performance was helped by 10 takeovers during the quarter, although he finds a dark side to that success.

"I don't like the stigma of being thought of as a takeover fund," he said. "Most (of our stocks) are long-term holdings. We just got hit by mergermania."

For example, he said, **Grolier Inc.**, **North American Communications Corp.** and **Dickey-john Inc.** were holdings that performed well in the first quarter in after being the subjects of takeovers.

"The whole idea is to get some sense of the company before" Wall Street does, Mr. Larson said.

Historically, the fund has had a pretty good position in New England banks, he said, and they experienced a strong January.

Other significant holdings in the fund are **Intermec Corp.**, **Intermedics Inc.**, **Cordis Corp.** and **Weigh-Tronix Inc.**

"People always laugh at the names, but there is some substance there," he said. "We try to be patient with these things."

The Uncommon Value equity fund of Manufacturers Hanover Trust Co., New York, finished third for the quarter at 23%.

Dorik Rozanski, vice president for Mitchell Hutchins Institutional Investors Inc., New York, which manages the fund for Manufacturer's Hanover, said it's a long-term, value-oriented, fairly consistent portfolio with an affinity for high-quality, overlooked

Continued on page 31

Special equity funds
(periods ended March 31, 1988)

	1st qtr.	1 yr.	3 yr.	5 yr.	10 yr.
Highest return	25.2%	20.4%	42.5%	40.4%	26.1%
First quartile	15	−2.8	17.2	14.2	19.5
Median	12.2	−9.6	13.1	10.5	17.5
Third quartile	9.1	−14.5	8.5	6.5	16
Lowest return	−3.9	−33.7	−2.2	−2.7	13.5
S&P 500	5.7	−9.4	16.8	15.6	16.6
Russell 2000	18.7	−13.4	9.3	8.7	NA

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Funds shifting to Hong Kong

By Marlene Givant

Leading international stock managers included in the Pensions & Investments' Performance Evaluation Report are placing big bets on Hong Kong and Australia, diverting money from the pricey Japanese market.

Managers of PIPER's foreign bond funds, which generally lagged the equity funds, have mixed views on the U.S. dollar, however.

Among those with renewed confidence in Hong Kong, which closed temporarily following Oct. 19, and Australia, which also was battered in the stock market crash, are Confederation Life Insurance Co., which had PIPER's top return for the quarter and year ended March 31, and Provident Capital Management, Philadelphia.

In addition, the $45 million International Stock Portfolio of Wellington Management Co./ Thorndike, Doran, Paine & Lewis, Boston, is putting new cash flow from Japan into Singapore and Europe.

Equity funds re-emerged as top performers among international and global commingled funds in the first quarter. The $3 million International Common Stock fund of Confederation Life, managed from Toronto, returned 16.49% and 26.83% for the quarter and year ended March 31, beating the Morgan Stanley Capital International Europe Australia Far East index's 15.31% and 16.79% for those periods.

Ranking second for the quarter and year, Wellington's $6 million Pacific Basin portfolio returned 15.95% and 24.57%. The firm's International Stock Portfolio was third for the quarter among active managers, returning 11.33% while Provident's $65 million International Low P/E Equity Fund ranked third for the year at 23.22%.

Japan is once again affecting strategies. Confederation Life is increasing its exposure to inexpensive Australia and Hong Kong as Japan, in which it invests 35% to 40%, becomes more costly, said Ian Fyfe, portfolio manager. The insurer's fund has 10% in Australia and 5% in Hong Kong. It also has 9% in Holland, in companies like **Nedlloyd**, a shipping company. **Fuji Machine**, a Japanese machine tool company, also was a top-performing holding.

Wellington has 43% in Japan in such companies as **Kokusa Electric**, but is putting incremental cash flow from Japan into Singapore and Spain because those markets should grow faster in the second quarter, said Jerry Mitchell, senior vice president.

Its Pacific Basin fund's biggest weightings include 62% in Japan and 9% in Australia.

Provident Capital might increase Australia to 6% from 4% because it expects commodity inflation to benefit the market. It has pared Japan to 42% from 44% with a target of 40% by June. Provident sold **Morozoff**, a food company, which was up 80% in April alone and **Takasago Thermo**, which makes large air-conditioning systems. It boosted its U.K. holdings to 19%, buying **Dixons PLC**, a retailer of electrical appliances, said Sandor Cseh, vice president.

"We're moving to a more defensive position in Japan. Utilities are 10% of our Japanese portfolio. The market will have a correction some time in the summer. It's more overvalued than it was just before the crash and now nobody seems to be concerned," he said.

For longer periods, index funds prevailed. For the three years ended March 31, index funds managed by American National Bank & Trust Co. of Chicago,

Continued on page 32

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PIPER

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3-month returns

	%
First Wachovia (Div.), N.C.	25.2
Connecticut Nat'l Bank (Sup.)	23.9
Manufacturers Hanover (Uncom.)	23.0
Irving Trust (II), N.Y.	21.7
Trust Co. of the West (Value add)	21.5
Wellington Trust (Emerg. tech.)	21.1
First of Neenah (Reg.), Wis.	20.8
EF Hutton (5), Del.	20.0
First of Maryland	19.7
Wellington (Emerg. non-tech)	19.4
Fidelity Mgmt. Trust (Small co.)	19.1
Russell 2000	**18.7**
General American (II), Mo.	18.0
Chemical Bank (Emerg. F), N.Y.	17.4
Citicorp (Emerg. health care), N.Y.	17.1
Morgan Guaranty (Sup. opp.)	16.6
Provident Nat'l, Pa.	16.1
Citicorp (Sp. sit.), N.Y.	16.0
Chase Manhattan, N.Y.	15.9
First of Neenah (Cap. appre.)	15.7
Harris Trust (Sp. cap.), Ill.	15.6
Merchants Nat'l, Pa.	15.5
Texas Commerce	15.3
Centerre Trust (P-1), Mo.	15.2
Planters Nat'l (Carolinas), N.C.	15.0
Standard & Poor's	**5.7**

1-year returns

	%
First RepublicBank (Sel.), Texas	20.4
First of Neenah (Reg.), Wis.	7.8
First City Nat'l Houston (G-1)	7.6
First of Chicago (Inst.)	6.7
First Trust, Minn.	6.3
Citicorp (Resources), N.Y.	5.7
First of Minneapolis (20)	5.2
EF Hutton (5), Del.	4.2
First of Maryland	2.8
EF Hutton (Gro. B), Del.	2.5
Crestar Bank	1.4
Manufacturers Hanover (Uncom.)	0.9
Phoenix Mutual (Gro. S), Conn.	−0.3
Morgan Guaranty (Sup. opp.)	−0.3
First of Neenah (Worldwide)	−0.5
EF Hutton (Emerg. B), Del.	−0.6
Society Nat'l (Ohio reg.), Ohio	−1.0
Citicorp (Sp. sit.), N.Y.	−1.0
Central Fidelity (Agg.), Va.	−2.1
Wellington Trust (Emerg. tech.)	−2.2
Connecticut Nat'l Bank (Sup.)	−2.3
Banc One Asset Mgmt., Ohio	−2.8
Standard & Poor's	**−8.4**
Russell 2000	**−13.4**

3-year returns

	%
First RepublicBank (Sel.), Texas	42.5
EF Hutton (Emerg. B), Del.	39.9
EF Hutton (Gro. B),Del.	38.8
First of Neenah (Reg.), Wis.	30.4
Putnam Fiduciary (Putnam gro.)	21.4
Chase Manhattan (Inter. cap.)	20.8
Security Pacific (Gro. G), Calif.	20.4
Manufacturers Hanover (Sup.)	20.3
Central Fidelity (Agg.), Va.	20.3
Society Nat'l (Earnings), Ohio	20.3
EF Hutton (5), Del.	20.3
Society Nat'l (Ohio reg.), Ohio	20.2
Fidelity Mgmt. Trust (Agg.), Mass.	20.0
Harris Trust (Sp. cap.), Ill.	20.0
Norwest Bank (Sp. invt.), Minn.	19.3
First of Minneapolis (20)	18.1
Connecticut Nat'l Bank (Sup.)	17.9
Trust Co. of the West, Calif.	17.6
California First Bank (Sup.)	17.3
Manufacturers Hanover (Uncom.)	17.2
Standard & Poor's	**16.8**
Russell 2000	**9.3**

5-year returns

	%
First RepublicBank (Sel.), Texas	40.4
Fidelity Mgmt. Trust (Agg.), Mass.	18.9
Manufacturers Hanover (Uncom.)	17.6
Society Nat'l (Ohio reg.), Ohio	17.0
Trust Co. of the West, Calif.	16.1
Citicorp (Real estate), N.Y.	15.8
First of Minneapolis (20)	15.8
Standard & Poor's	**15.6**
LaSalle Nat'l (Small cap.), Ill.	15.5
First Wachovia (Div. sp. value)	15.5
Chase Manhattan (Inter. cap.)	15.4
First Wisconsin Asset (Gro. B)	15.2
First Trust, Minn.	14.8
First of Maryland	14.7
Citicorp (Sp. sit.), N.Y.	14.6
Manufacturers Hanover (Sup.)	14.4
Connecticut Nat'l Bank (Sup.)	14.3
Shawmut Bank (Target), Mass.	14.2
Russell 200	**8.7**

10-year returns

	%
California First Bank (Sup.)	26.1
MTrust (Growth), Texas	23.8
Norwest Bank (Sp. invt.), Minn.	21.9
First of Maryland	21.7
Citicorp (Sp. sit.), N.Y.	21.0
Chase Manhattan (Inter. cap.)	21.0
Bank of America, Calif.	20.4
Manufacturers Hanover (Sup.)	20.4
First Wisconsin Asset (Gro. B)	19.5
Standard & Poor's	**16.6**

Commingled International

3-month returns

	%
Confederation Life (Stock), Ga.	16.5
Wellington Trust (Pacific Basin)	16.0
State Street Bank (Index), Mass.	15.3
MSCI EAFE Index	**15.3**
Wells Fargo (Eq.), Calif.	15.2
American Nat'l Chicago (Eq.)	14.7
Travelers (Index), Conn.	14.7
Prudential (Foreign stock), N.J.	14.6
Chase Investors (EAFE Index)	13.8
MSCI World Index	**11.7**
Wellington Trust (Stock), Mass.	11.3
Chase Manhattan (Global), N.Y.	11.1
U.S. Trust (Eq.), N.Y.	10.9
Bessemer Trust (E), N.Y.	10.5
Harris Trust (Eq.), Ill.	10.3
Citicorp (Eq.), N.Y.	10.2
Centerre Trust (Coll. W), Mo.	10.0
Provident Nat'l (Low p/e), Pa.	9.5
PCM Int'l (Print), N.J.	9.0
First of Chicago (Eq.)	8.8
IDS Trust (Eq.), Minn.	7.4
Morgan Guaranty (Eq.), N.Y.	7.0
Marine Midland (Eq.), N.Y.	6.7
WorldInvest Ltd. (Eq.)	6.7
Bankers Trust (Eq.), N.Y.	5.8
Travelers Insurance (Eq.), Conn.	5.5
Aetna (AMAM-eq.), Conn.	5.4
Connecticut Mutual (CM overseas)	4.8
Putnam Fiduciary (Trust)	4.5
PCM Int'l (Global bond), N.J.	4.2
California First (Invt. eq.)	4.1
Principal Mutual (SA eq.), Iowa	4.1
Fidelity Mgmt. (Overseas eq.)	3.2
CIGNA Corp. (Eq.), Conn.	2.9
PCM Int'l (Global yield), N.J.	2.6
WorldInvest Ltd. (Fixed)	2.0
PCM Int'l (Foreign bond), N.J.	1.9
Morgan Guaranty (Bond), N.Y.	1.3
IAA Trust (CTF-I), Ill.	1.2
First of Chicago (Non-$ fixed)	0.1
Citicorp (Fixed), N.Y.	−2.4

1-year returns

	%
Confederation Life (Stock), Ga.	26.8
Wellington Trust (Pacific Basin)	24.6
Provident Nat'l (Low p/e), Pa.	23.2
PCM Int'l (Foreign bond), N.J.	22.9
First of Chicago (Non-$ fixed)	22.7
PCM Int'l (Global bond), N.J.	22.7
WorldInvest Ltd. (Fixed)	22.1
PCM Int'l (Global yield), N.J.	18.4
Wells Fargo (Eq.), Calif.	17.8
Prudential (Foreign stock),N.J.	17.2
MSCI EAFE Index	**16.8**
State Street Bank (Index), Mass.	16.8
Morgan Guaranty (Bond), N.Y.	16.5
Harris Trust (Eq.), Ill.	16.3
Chase Investors (EAFE index)	16.0
Bankers Trust (Eq.), N.Y.	15.5
American Nat'l Chicago (Eq.)	15.4
Travelers Insurance (Eq.), Conn.	15.2
First of Chicago (Eq.)	11.6
U.S. Trust (Eq.), N.Y.	10.0
California First (Invt. eq.)	9.6
Citicorp (Fixed), N.Y.	9.5
Centerre Trust (Coll. W), Mo.	7.8
Chase Manhattan (Global eq.)	7.5
Putnam Fiduciary (Trust)	6.5
MSCI World Index	**6.3**
CIGNA Corp. (Eq.), Conn.	6.3
Connecticut Mutual (CM overseas)	5.1
Morgan Guaranty (Eq.), N.Y.	4.9
Bessemer Trust (E), N.Y.	4.7
Citicorp (Eq.), N.Y.	3.5
Marine Midland (Eq.), N.Y.	1.9
Wellington Trust (Stock)	1.8
Aetna (AMAM-eq.), Conn.	0.8
IDS Trust (Eq.), Minn.	−3.3
PCM Int'l (Print), N.J.	−4.1
Fidelity Mgmt.(Overseas), Mass.	−8.0
WorldInvest Ltd. (Eq.)	−11.2

3-year returns

	%
American Nat'l Chicago (Eq.)	52.1
MSCI EAFE Index	**51.8**
State Street Bank (Index), Mass.	51.4
Wells Fargo (Eq.), Calif.	50.8

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Takeovers

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stocks that are bought at big discounts to intrinsic value.

"These are not widely held institutional stocks," Mr. Rozanski said, adding the stocks are key players in their respective industries.

He declined to identify the approximately 40 stocks in the $90 million fund.

For the longer periods, one fund ranked first in the one-, three- and five-year periods ended March 31: the Select Equity Fund offered by FirstRepublic Bank, Dallas.

The $15 million fund had returns of 20.4%, a compound annualized 42.5% and an annualized 40.3%, respectively.

The median returns for the same periods were, respectively, −9.6%, an annualized 13.1% and an annualized 10.5%; the S&P 500 returns were −8.4%; 16.8% and 15.6%; and the Russell 2000 returns, −13.4%, 9.3% and 8.7%.

"We came off two extraordinary back-to-back years," said Ben Fischer, senior vice president and director of the bank's investment asset management group, referring to returns of 70% in 1986 and 69.5% in 1987.

The fund performed below the median for the quarter, with a 10.6% return, although that still topped the S&P 500.

Mr. Fischer said the $15 million fund is usually concentrated in less than 10 stocks, which are chosen from a value screen that stresses low p/e ratios. A high turnover rate — typically 300% and at times as high as 450% a year, he said — keeps Mr. Fischer a busy man.

Among stocks sold in the first quarter, he said, were **Arkansas Best Corp.**, **Ferro Corp.**, **IBM Corp.**, **Digital Equipment Corp.** and **Chrysler Corp.** New buys include **Hospital Corp. of America**, **Textron Inc. and Gould Inc.**

One of the most consistent performers in the past years has been the Regional Bank fund offered by First of Neenah, now a part of Associated Banc-Corp of Wisconsin.

The 4-year-old fund finished among the top seven funds for the quarter, year and three-year periods, with respective returns of 20.8%, 7.8% and an annualized 30.4%.

The fund, as its name suggests, holds bank stocks, primarily regional banks in the $1 billion to $3 billion range, according to Kenneth J. Brusda, vice president and trust investment officer. First of Neenah looks at p/e and price/book ratios and also at takeover candidates.

"Every bank we hold we would consider a takeover candidate," Mr. Brusda said. "We still feel very strongly about the concept."

In the quarter, a couple of the fund's banks, **Citizens Financial Group Inc.** and **Unibancorp Inc.**, were the object of takeovers, he said.

"These acquisitions have occurred pretty regularly," he said. "These have been helpful, but the banks in general have been more popular."

The fund has a little more than $10 million, with holdings in about 18 banks nationwide, although 98% of them are east of the Mississippi, he said.

Mr. Brusda said he "feels very strongly" that **Signet Banking Corp.** is the most attractive takeover candidate among the fund's holdings.

Signet itself was born of a takeover. About four years ago, First of Neenah bought stock in Union Trust Bancorp of Maryland, which subsequently merged with Bank of Virginia Co., and they changed the name to Signet.

Patience was a virtue for the $16 million supplemental equity fund of California First Bank, San Diego. It's small-cap, emerging growth fund was the top performer for the 10 years, with an annualized 26.11% return.

For the same period the median PIPER fund returned an annualized 17.47%, while the S&P 500 returned 16.6%. The Russell 2000 doesn't go back that far.

"We've basically had the same principles for more than 10 years," said David Urben, funds manager for California First. "You're trying to catch the stocks in the early stages of its growth cycle and hope to be gone by the time it becomes cyclical," he said.

Liz Claiborne Inc., New York, has been the leading stock for First California in the long term, Mr. Urben said, although it's not as important to the portfolio now.

In the quarter, First California's portfolio of about 47 stocks was led by **Advanced Marketing Services**, San Diego, and **Flight Group International**, Atlanta. ■

Fidelity Mgmt. (Overseas eq.)	49.2
WorldInvest Ltd. (Eq.)	49.1
Wellington Trust (Pacific Basin)	47.0
Bessemer Trust (E), N.Y.	46.5
Marine Midland (Eq.), N.Y.	45.3
Chase Manhattan (Global eq.)	45.2
Bankers Trust (Eq.), N.Y.	44.7
Citicorp (Eq.), N.Y.	44.4
First of Chicago (Eq.)	44.0
CIGNA Corp. (Eq.), Conn.	42.4
Centerre Trust (Coll. W.), Mo.	42.1
U.S. Trust (Eq.), N.Y.	41.5
California First (Invt. eq.)	40.7
Aetna (AMAN-eq.), Conn.	40.7
IDS Trust (Eq.), Minn.	39.3
Morgan Guaranty (Eq.), N.Y.	38.6
Putnam Fiduciary (Trust)	38.4
Wellington Trust (Stock)	38.4
WorldInvest Ltd. (Fixed)	38.3
PCM Int'l (Global bond), N.J.	36.9
PCM Int'l (Foreign bond), N.J.	36.5
First of Chicago (Non-$ fixed)	36.2
MSCI World Index	**34.1**
Citicorp (Fixed), N.Y.	31.8
Morgan Guaranty (Bond), N.Y.	30.2

5-year returns

	%
MSCI EAFE Index	**37.3**
American Nat'l Chicago (Eq.)	36.6
Wells Fargo (Eq.), Calif.	36.4
Wellington Trust (Pacific Basin)	35.2
Bankers Trust (Eq.), N.Y.	33.4
WorldInvest Ltd. (Eq.)	31.5
First of Chicago (Eq.)	30.5
Citicorp (Eq.), N.Y.	29.6
Centerre Trust (Coll. W), Mo.	29.2
IDS Trust (Eq.), Minn.	29.2
U.S. Trust (Eq.), N.Y.	29.1
Wellington Trust (Stock), Mass.	28.0
Bessemer Trust (E), N.Y.	27.2
Putnam Fiduciary (Trust)	26.9
MSCI World Index	**26.0**
Morgan Guaranty (Eq.), N.Y.	26.0
PCM Int'l (Global bond), N.J.	24.6
Chase Manhattan (Global eq.)	23.8
PCM Int'l (Foreign bond), N.J.	22.3
First of Chicago (Non-$ fixed)	21.8
WorldInvest Ltd. (Fixed)	21.6
Morgan Guaranty (Bond), N.Y.	19.2
Citicorp (Fixed), N.Y.	18.2

10-year returns

	%
MSCI EAFE Index	**23.4**
U.S. Trust (Eq.), N.Y.	23.3
First of Chicago (Eq.)	20.5
MSCI World Index	**20.1**
Morgan Guaranty (Eq.), N.Y.	19.0

Profiles of the leading investment management consultants will be published in the Oct. 17 issue of *Pensions & Investment Age*.

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Hong Kong

Continued from page 29

State Street Bank & Trust Co., Boston, and Wells Fargo Investment Advisors, San Francisco, had compound annualized returns of 52.05%, 51.37% and 50.79%, respectively, vs. the EAFE's 51.84%.

For the five years, American National's $220 million fund was up an annualized 36.63% and Wells Fargo's $624 million reached 36.4% vs. the EAFE's 37.26%.

The top active portfolio for three years, Boston-based Fidelity Management Trust's $100 million Overseas Equity fund logged a 49.24% compound annualized return, followed by London-based WorldInvest Ltd.'s $56 million International Employee Benefit Equity fund with 49.05%. Wellington's Pacific Basin fund was third with 47.22%.

For five years, the Wellington fund also excelled with 35.21% followed by New York-based Bankers Trust Co. — Investment Management Group's International Equity fund with 33.4% and WorldInvest's equity fund's 31.47%.

Fidelity's three-year return incorporates the returns of the Fidelity Overseas mutual fund up to April 1, the day the commingled fund was transferred to the mutual fund's management team from Fidelity International Investment Advisors, Boston, a separate company.

The fund has been up and down in Japan from 65% in early 1987 to 25% post-crash to 50% now. It has been fully invested since the beginning of the year and invests 10% in Spain, said Robert L. Reynolds, senior vice president.

WorldInvest has a mammoth, 18% exposure to the small Spanish market. It has nothing in Japan, 25% in the United Kingdom and more than 20% in deutsche mark, yen and sterling cash. It expects U.K. companies to enjoy Europe's consumer growth and is buying financial stocks like French insurer **Group Victoire** because European interest rates are falling, said Ali Ansari, investment manager.

Bond funds generally lagged equities during the quarter but the top bond fund, Newark, N.J.-based PCM International's $200 million Global Bond fund beat some equity funds returning a hefty 4.23%. The firm's $85 million Global Yield fund, which invests in short-term instruments, followed with 2.58% and WorldInvest's $40 million International Employee Benefit Fixed Income fund ranked third among bond funds with a 2.01% return.

For periods ended March 31, the Salomon Brothers Non-U.S. Dollar World Government Bond index returned 1.09% for the quarter, 20.42% for the year and a compound-annualized 33.29% for three years.

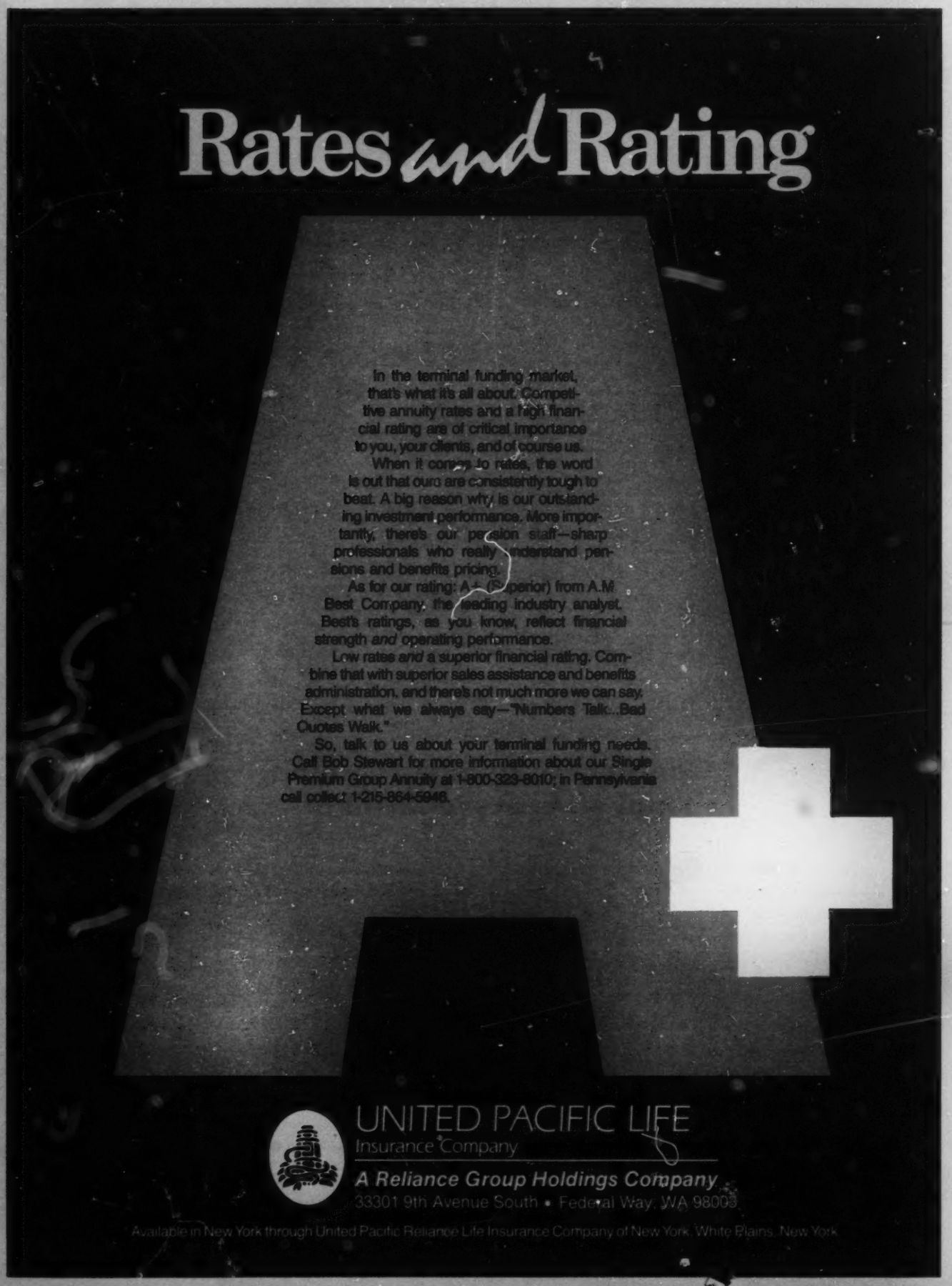
Bond funds were high fliers for the year. PCM's $200 million foreign bond fund returned 22.85% followed by First Chicago Investment Advisor's $270 million International Non-Dollar Fixed Income fund with 22.73% and PCM's Global Bond fund with 22.71%.

WorldInvest triumphed over three years returning a compound annualized 38.31%. PCM's global fund rose 36.92% followed by its foreign bond fund with 36.5%.

PCM's global fund topped the five-year bond charts with an annualized 24.61% vs. 22.25% for its foreign fund and First Chicago's 21.79% international bond return.

WorldInvest invests 40% in yen cash — not bonds — because the Japanese yield curve is flat, the Bank of Japan is reluctant to cut interest rates and economic growth is strong, said Philip Wolstencroft, investment manager. It also has 40% in deutsche mark bonds and 20% in Canadian bonds, greatly differing from the Salomon Non-U.S. index's 15% in Germany 45% in Japan and less than 10% in Canada.

First Chicago is holding medium to long maturities in Australia and Canada, markets that could benefit if the dollar rises. "We think the dollar is at the end of its cyclical decline," said Richard Carr, managing director. In global portfolios, the firm, which rarely uses derivatives, is hedging 25% from deutsche mark and sterling into U.S. dollars. ■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Stock sales outpace buys

NEW YORK — Institutional investors were average net sellers of 800,000 shares of stock daily on the New York Stock Exchange in the first quarter, according to the Securities Industry Association.

In the same period in 1987, institutions fueled the stock market's rally with net purchases of 5.9 million shares a day on the NYSE, according to association officials.

Daily average volume on the NYSE in the first quarter was 358.2 million shares, down 3.3% from the daily average figure of 370.4 million shares a year ago. However, if corporate buyback and dividend recapture activities were excluded, the daily average volume would have been barely more than 300 million shares, or 17% less than a year earlier.

Retail activity accounted for about 24% of NYSE first-quarter volume, compared with 26.9% in the same period last year.

Volume on the American Stock Exchange declined 28.7% in the quarter, to a daily average 21.6 million shares from 30.3 million in 1987's first quarter. Institutional investors were net sellers of 300,000 shares daily, about the same as a year earlier.

In the over-the-counter market, daily average volume fell 16.1%, to 257.6 million shares from 307.1 million in 1987. Institutions were net buyers of 1.3 million shares of OTC stocks on a daily average basis, down from 2.1 million a year ago. ■

International firms defensive

Cash holdings doubled

By Marlene Givant

International equity managers more than doubled their tiny cash exposure in the first quarter while slightly increasing holdings in Japan and reducing those in the United Kingdom, according to the geographic asset allocation of the median non-U.S. equity portfolio of InterSec Research Corp., Stamford, Conn.

The portfolio's cash rose to 4.1% as of March 31 from 1.8% as of Dec. 31. That mirrors cash increases by domestic equity managers during the first quarter, according to INDATA investment analysis service, Southport, Conn. (*Pensions & Investment Age*, May 2).

Managers increased Japanese holdings to 39.9% from 35.8%, although the market itself rose to 64.4% of the Morgan Stanley Capital International Europe Australia Far East index vs. 61.4% at the end of December.

The portfolio's U.K. portion was reduced to 16.2% from 18.9%, although that market's performance alone sent it down almost 11% as a percentage of the EAFE to 13% from 14.4%.

Managers interviewed by *Pensions & Investment Age*, while not raising as much cash as the InterSec portfolio, were more defensive during the quarter. Some of the defensiveness stemmed from concerns over the U.S. market.

Believing foreign markets are vulnerable to a U.S. market shock, Ivory & Sime International Ltd., Edinburgh, invested 19% to 20% in gilts (U.K. government bonds) as of March 31. The firm, which invests $150 million internationally for U.S. tax-exempt clients, is balancing that defensive asset allocation with aggressive stock selection, avoiding the institutional favorites in each market.

Capital Guardian Trust Co., Los Angeles, which invests $2.8 billion internationally for U.S. tax-exempt clients, has maintained about 13% in cash since the fourth quarter of last year.

But IDS International Inc., London, sold its bonds and reduced cash to the 5% to 10% range from 5% to 15% because it believes stocks should outperform cash and bonds as the world economy is dominated by fears of inflation or recession.

Many managers are marveling at Japan's economic strength and stock market resiliency.

"We regard it as indisputable that the best economic fundamentals in the world can be found in Japan," noted an IDS International report.

Yet the economic engine is unlikely to overheat, the report noted. "The indications are that Japanese growth is moderating from its somewhat excessive burst of speed." The firm had between 54% and 60% in Japan at the end of the first quarter vs. 30% to 35% as of Dec. 31.

In addition, IDS reduced its target U.K. exposure to 10% to 12% from 12% to 16% in its effort to underweight hard-currency mature industrial markets in favor of Japan and other countries dependent on world trade.

In the first quarter, Martin Currie Inc., Edinburgh, which invests $249 million internationally for U.S. tax-exempt clients, increased Japan to 48% from 42% by reducing cash. Its target in Japan is 52%.

"It's one area of the world where we see continued economic growth to 1989 almost regardless of what happens in the rest of the world," said W.M.C. Kennedy, president, citing the nation's improved infrastructure and increased capital investment.

But some U.S.-based managers are avoiding Japan because of its high price-earnings ratios. To compensate for its minuscule 4% exposure to Japan, Grantham, Mayo, Van Otterloo International, Boston, which runs $2 billion for U.S. tax-exempt clients, is slowly increasing its exposure to the United Kingdom at the expense of Spain because the U.K. market has progressed so strongly.

"If you take Japan out, the U.K.'s neutral weight becomes 38% in EAFE," said Eyk Van Otterloo, partner. He added the United Kingdom, which should reach 35% in the portfolio, is cheaper than the index as a whole. As of the end of the first quarter, the firm had 32.5% of its holdings there. ■

Geographic asset allocation of non-U.S. portfolios

Country/region	InterSec median portfolio 1st qtr.	InterSec median portfolio 4th qtr.	EAFE 1st qtr.	EAFE 4th qtr.
Japan	39.9	35.8	64.4	61.4
Other Pacific Basin	7.4	7.1	4	4
United Kingdom	16.2	18.9	13	14.4
Continental Europe	24.8	26.8	18.6	20.2
Other	2.7	2.4	0	NA
U.S. cash	4.1	1.8	0	0

Source: InterSec Research Corp., Stamford, Conn.

Going to cash

Continued from page 1
tween April 17 and May 12.

Some managers moved away from stocks much earlier.

J.H. Ayres & Co. Inc., a market timer in Colorado Springs, Colo., went to 100% cash from 100% equities Sept. 8 and is still there, said James H. Ayres, president. The move was due to the Fed's tightening of monetary policy, he said. The firm manages $1.8 billion.

Market timing and tactical asset allocation managers shift among asset classes because of predicting or reacting to changes in the value of each class. Many use a quantitative process. Most can shift allocations either by buying and selling the actual securities or using futures and options.

Among the shifts to cash from bonds:

- Consistent Asset Management Co., Wilmington, Del., which moved its $250 million under management to 100% cash from 100% bonds March 8.
- Harris Bretall Sullivan & Smith Inc., San Francisco, which placed half of its $200 million in fixed-income accounts in cash in February. It also has $200 million in equity-oriented accounts, which have been 85% in cash since last summer.
- Wilmington Trust Co., Wilmington, Del., changed the bond portions of its balanced accounts to cash in mid-March, said James V. Kelly, vice president. It makes moves based on a group of proprietary indicators keyed off trends in the market, he said.

The firm has $117 million in balanced accounts. Target allocations are 25% stocks, 75% bonds or cash for low-risk clients; 50% stocks, 50% bonds or cash for medium-risk clients; and 75% stocks, 25% bonds or cash for high-risk clients.

- R. Meeder & Associates Inc., Dublin, Ohio, reduced its bond accounts' exposure to nearly zero from 100% a month ago, said Robert Meeder, president. It effected the change primarily through the derivative markets. It came because of the firm's anticipation that interest rates would continue rising, he said.

The firm has between $40 million and $50 million in bond accounts. Its equity accounts, between $450 million and $500 million, have been half in stocks and half in cash since the beginning of the year.

- Schield moved its $2 million in bond accounts into cash in late March.
- Davis, Weaver & Mendel moved its fixed-income allocation, between $15 million and $20 million, to cash from long-term Treasury securities in late March.

There also were some earlier moves out of the bond market. Hoisington Investment Management Co., Houston, went to 100% cash from 100% bonds in December and remains there. It has $750 million under management.

On the stock side, Bruce Poliquin, Avatar's vice president and principal, said Avatar began reducing the exposure in late March and continued throughout April. The other 45% of Avatar's $1.5 billion under management is in cash.

"April and May were somewhat unusual," said Steven Lauer, manager-options and futures group. Bankers Trust, a tactical asset allocator, effects changes only by overlaying futures on a portfolio.

"It's not unusual for us to be totally out of the market two to four times a year," noted Marsh Douthat, executive vice president of Davis, Weaver & Mendel.

Bankers Trust, on the other hand, had made only minor shifts earlier in the year, but in April and May it was reacting to the changes in interest rates, Mr. Lauer said. The most recent move also was due to the Fed's tightening of credit, he said.

In Schield's case, stock prices had so deteriorated that further deterioration appeared likely, said Marshall Schield, president and chief investment officer. The firm looks at stock prices on an absolute basis and also considers them in relation to their 15-week moving averages.

As measures of the stock market, Schield Management does not use the Standard & Poor's 500 stock index or the Dow Jones industrial average, but broader universes such as the Value Line index of roughly 1,700 stocks and its own universe of 4,000 issues.

James H. Ayres says his investment management firm has held cash since Sept. 8.

In bonds, Schield Management looks at prices, as well as interest rate trends and monetary policy.

The firm's accounts are either 100% in their respective markets or 100% in cash. It had gone into equities Dec. 23, after having gotten out of the market Sept. 22. It had been in the bond market since Oct. 21.

Avatar bases its tactical asset allocation decisions on the amount of liquidity in the economy and in the hands of investors, Mr. Poliquin said. If there is excess cash not being absorbed by the industrial sector, it often ends up in stocks.

"Excess liquidity means low risk, so we raise equity exposure in those environments," he said. By the same token, it decreases equity exposure in climates of less liquidity. Avatar measures liquidity by such factors as interest rate trends, Federal Reserve policy and foreign participation in U.S. markets.

Bankers Trust's Mr. Lauer said in the near future, bonds have a higher probability of performing well.

The outlook would be more positive for stocks if the Fed loosens the money supply, he said.

Not all asset allocators are down on stocks, however. Renaissance Investment Management Inc., Cincinnati, had been 100% in bonds last summer and went to a 50-50 stock/bond allocation early in November, and might increase stocks further, said Mike Schroer, director of research.

The firm has $1.2 billion under management.

The Boston Co., Boston, cut its tactical asset accounts' equity exposure to slightly more than 50%, from 70%, when the Dow hit 2200 seven weeks ago, but went back to about 60% stocks when the average came down into the 1900s two weeks ago, said Richard Crowell, senior vice president.

The remainder of the $2 billion in the accounts is in bonds; neither stocks nor bonds are overvalued now, so there's no reason to hold cash, Mr. Crowell said.

David Bostian, chief investment officer of Bostian Research Associates Inc., New York, said the many managers holding cash is positive for the stock and bond markets because the cash will be ready for use when these markets start to move.

Mr. Bostian sees no immediate threat of inflation or recession and looks for upward moves in both the stock and bond markets. His firm manages only equities, about $6 million, and has been fully invested since December. ■

Also contributing to this story were staff writers Curtis Vosti, Carol Wiley and Fred Williams.

RCB split

Continued from page 2
other key employees. Mr. Beasley is a shareholder in Rogers, Casey & Barksdale; he will become a shareholder in the new Rogers Casey firm.

Messrs. Casey and Rogers were unavailable for comment.

Under the split, RCB International will get four Rogers Casey & Barksdale operations — RCB Trust Co., based in Stamford; the Diversified Fund of Canada, Toronto; the Diversified Fund of the U.K., London; and Stamford Associates Ltd., Guernsey, Channel Islands.

Barksdale

The four operations offer commingled funds through outside investment advisers hired by the company. In the United Kingdom, Mr. Barksdale said RCB International has begun offering separate account investment programs, also run by outside advisers. The Guernsey operation serves the four wealthy individual clients, through commingled investment funds.

As the four operations were established and grew, Mr. Barksdale eventually devoted all of his time to them.

The Canada fund, the first of the four, was formed in 1979. RCB Trust, set up in 1985, markets to small funds; its commingled funds always were separate from the investment programs Rogers Casey is retaining, Mr. Beasley noted.

The RCB International funds invest globally in stocks and bonds, as well as holding U.S. and Canadian real estate, Mr. Barksdale said.

The Rogers Casey funds invest only in U.S. stocks and fixed income, according to Mr. Beasley.

According to Mr. Barksdale, who will be president and chief operation officer of RCB International, the two entities have been operating as separate accounting units since Aug. 1 in preparation for the legal split.

Some pension fund clients said they have been aware of the impending change since last year; they saw no impact on the services.

Mr. Barksdale said the reorganization agreement precludes the entities from working in the other's fields for some time.

He said the reorganization was taking some time to complete, in part because "it's an enormously complicated process to go through a tax-free exchange."

The reorganization is a division of assets; no cash will change hands. He added the October market crash postponed the legal work further as the principals were off serving clients.

"There are no problems or obstacles," Mr. Barksdale added. "But if everyone is off serving clients, no one is there to push the lawyers along."

Mr. Beasley said legal work on the reorganization should be complete in two or three months.

ESOP refinancing holds guaranty

By Brad Rudin

NASHVILLE, Tenn. — HealthTrust Inc., created last year in an employee-sponsored leveraged buy-out, will refinance some of its acquisition debt in an innovative offering, part of which will be guaranteed by the company's former owner, Hospital Corp. of America.

The refinancing is an important step for HealthTrust because it allows the still-struggling company to defer some cash debt service payments for four years.

"It makes sense for the company because it gives them a lot of breathing room in the short term," said Margery E. Obrentz, health-care analyst in the high-yield research group at Kidder, Peabody & Co. Inc., New York.

The principal amount $745 million refinancing package consists of a mix of zero-coupon and current-pay bonds. The principal amount of the guaranteed zero-coupon and current-pay bonds is $240 million, while the non-guaranteed bonds total $505 million. The offering provides net proceeds of $554 million.

The $365 million redemption amount of non-guaranteed zero-coupon senior subordinated debentures, due Dec. 1, 1999, was priced to yield 16.5% until Dec. 1, 1991. The issue thereafter will pay interest semiannually at a rate of 16.5% to maturity. The non-guaranteed $140 million tranche of senior subordinated debentures, due Dec. 1, 1999, was priced at par to yield 15.25%.

The $110 million redemption amount of zero-coupon guaranteed subordinated debentures, due Dec. 1, 2002, were priced to yield 11.6% until Dec. 1, 1991. Thereafter, the debentures will pay a semiannual rate of interest of 11.6% until maturity. The $130 million of guaranteed subordinated debentures due Dec. 1, 2002, were priced at par to yield 11.25%.

Drexel Burnham Lambert Inc., New York, is the sole manager of the offering, which was priced May 25.

HCA last year sold 104 hospitals and other assets in a $2.1 billion leveraged buy-out in which the cash portion was mostly financed by $810 million lent to the HealthTrust employee stock ownership plan. The ESOP, the largest in the United States, owns 90% of HealthTrust's common stock on an undiluted basis.

The shrinkage of HCA is similar to the restructuring of American Medical International Inc., Beverly Hills, Calif., which announced in May it plans to sell 37 hospitals to employees for $910 million in cash and securities.

Contributions made to the HCA defined contribution plan in behalf of the 23,000 employees who now work for HealthTrust might soon be transferred to HealthTrust, said Charles R. Gaston, vice president for administration. Preliminary indications from the Department of Labor suggest the departure of the 23,000 employees will be treated as a partial plan termination, he said, adding tentative estimates put the amount to be transferred at $200 million.

The transferred contributions will fund a defined contribution plan at HealthTrust that will be separate from the ESOP, Mr. Gaston said.

HealthTrust also stands to gain from the public offerings, which include zero-coupon issues that relieve HealthTrust from the burden of making cash interest payments until June 1, 1992.

Respite from cash interest payments will be welcome news for the company, which experienced a $65 million fixed-charge coverage deficiency for the six months ended Feb. 29, 1988. If earnings were adjusted to eliminate certain non-cash charges, HealthTrust would have reported income of $78 million in excess of fixed charges.

The offerings also buy time for HealthTrust because the covenants require dividends on previously issued preferred stock be paid in kind before Dec. 31, 1992.

Cash payment of interest and dividends will kick in when other debt service obligations "are expected to be substantially reduced from current levels," according to the preliminary prospectus filed last month.

Still, the ability of HealthTrust to service its debt remains in doubt.

"There's a certain amount of cash flow stability at HealthTrust by virtue of the essentiality of hospital services, but with half the beds unoccupied and margins being squeezed by costs that can't be passed through, the company has its work cut out," said Michael Kaplan, a health-care analyst at Standard & Poor's Corp., New York.

HealthTrust's future should be analyzed in the context of the prospects for the health-care industry, said Roger Gordon, a high-yield bond analyst at Donaldson, Lufkin & Jenrette Securities Corp.

"While some people perceive that hospital utilization trends have turned in the early part of 1988, my own feeling is that it might be more of a temporary phenomenon than a real indicator of a strong industry turnaround," he said.

Standard & Poor's gave a BBB+ rating to the guaranteed debt and a CCC+ rating to the securities not guaranteed by HCA. Moody's assigned a Baa1 rating to the guaranteed debt and a B3 rating to the other tranche.

HCA backing boosted the credit rating of the $110 million issue of zero-coupon guaranteed subordinated debentures due 2002 and the $130 million issue of guaranteed subordinated debentures due 2002. Proceeds from this offering, together with the concurrent offering, will refinance $240 million of privately placed increasing-rate debentures due 2002 that bore an interest rate of 8.875% April 1, 1988. The base interest rate, 200 basis points over the London interbank offered rate, increases its spread over LIBOR by 50 basis points each quarter after issuance.

Because the guaranteed debentures themselves have an increasing-rate structure, HealthTrust has an incentive to refinance before maturity. If cash flow levels reach specified amounts starting in 1992, the interest rates on the guaranteed debentures increase to a rate 100 basis points higher than the coupon rate or the interest rate paid on comparable securities, whichever is greater. The revised interest rate will be increased by an additional 100 basis points every 90 days thereafter.

In addition to guaranteeing the debentures, HCA also provides credit support by agreeing to purchase up to $40 million of preferred stock if certain cash flow goals are not achieved before Aug. 31, 1990.

Proceeds from the offerings will be used to refinance $303 million of privately placed increasing-rate senior subordinated notes due 1999. Those notes bore 12.375% interest rate April 1, 1988. The base interest rate, 550 basis points over LIBOR, increases its spread over LIBOR by 50 basis points each quarter after issuance. ■

Suspect enters not guilty plea

CHICAGO — Morton Scherl, former chairman of DuPage Boiler Works in Naperville, Ill., has pleaded not guilty to fraud charges that arose from the alleged diversion of the company's profit-sharing funds to his own use.

The U.S. attorney's office in Chicago brought charges against Mr. Scherl and two associates last year (*Pensions & Investment Age*, June 1). Mr. Scherl, who had been missing since Oct. 9, 1986, was arrested by FBI agents April 26 in Baltimore, where he had assumed a new name.

The indictment issued last year alleges Mr. Scherl diverted DuPage Boiler Works' profit-sharing assets to his own use. The company had $741,000 in its profit-sharing plan, of which $681,000 is alleged to have been diverted by Mr. Scherl; the remainder was a penalty for withdrawal from an annuity contract in which the plan was invested.

DuPage Boiler Works went out of business in 1986, leaving 50 workers without jobs or retirement funds. Mr. Scherl is charged with several counts of fraud, including violation of the Employee Retirement Income Security Act.

Two associates also were charged with fraud and diversion of profit-sharing assets. Jack Eberwein, DuPage Boiler Works' former president, pleaded guilty to the charges and cooperated in the prosecution of William B. Goodstein, former secretary of the company. Mr. Goodstein was convicted in December and sentenced in February to three years in a federal prison in California. Mr. Eberwein is in a work-release program in Ohio.

Moving up, on

Continued from page 2

investment analyst of the company's pension fund, reporting to Jack Miller, who recently joined the Philip Morris Cos. Inc., New York.

"My husband was going to grad school in Muncie and the job was open," she said. "I enjoy pensions."

Mr. Miller has been replaced by Fred W. Ruebeck, former controller of the pharmaceutical division at Eli Lilly.

Mr. Adams had been with PacTel for more than four years, overseeing the $8.5 billion fund's international and fixed-income investments.

His resignation follows that of Jeffrey Winter and Daniel Braswell, who formed Quantologic, a tactical asset allocation firm.

Since then, Andy Fagan has been named a portfolio manager at PacTel and Douglas Taylor has been named executive director-investment management.

Parametric Portfolio Associates, Seattle, a quantitative domestic and international equity manager, runs $450 million, mostly for U.S. tax-exempt clients.

At Brunswick, Mr. Dolsen replaces Beverly Madore, who left for a job unrelated to investment management. His replacement at Blue Cross has not been named.

Mr. Dolsen said his new job at Brunswick will allow him to concentrate on pension asset management, while at Blue Cross he had several additional responsibilities. Each company has about $600 million in pension assets.

In New York, Mr. Ballard said he isn't quite ready to fully end his 40-year real estate career.

"I ain't about to retire and I don't think I ever will," Mr. Ballard said. "It's just a little change in lifestyle. I'm happy as heck. I'm getting close to 60 years old and I'd like to put something back to this industry that's been so good to me."

In addition to working part time at Goldman, Sachs, he said he is talking to some universities about teaching.

Mr. Ballard, who owns several farms, also plans to take a more active role in the agricultural business. ■

Surplus

Continued from page 3

eral taxes on reversions, declining interest rates raising the present value of liabilities, and October's upheaval in the stock markets, sending reminders of investment risks, according to pension industry executives.

Among other reasons, they cite fears of balance sheet liabilities under the Financial Accounting Standards Board Statement 87 if the accrued present value of benefits is underfunded.

Last year, 169 plans were terminated, resulting in $1.43 billion in reversions, according to the PBGC. That was the lowest level since 1983, when there were 164 plans terminated with $1.6 billion in reversions.

Since 1980, there have been 1,634 terminations, with reversions totaling $17.87 billion, according to the PBGC. With additional reports from companies that had major terminations, the reversions rise to a total of $18.08 billion.

Using the revised figures, 25 companies have received 43% of all the reversions; Exxon alone accounts for 9%.

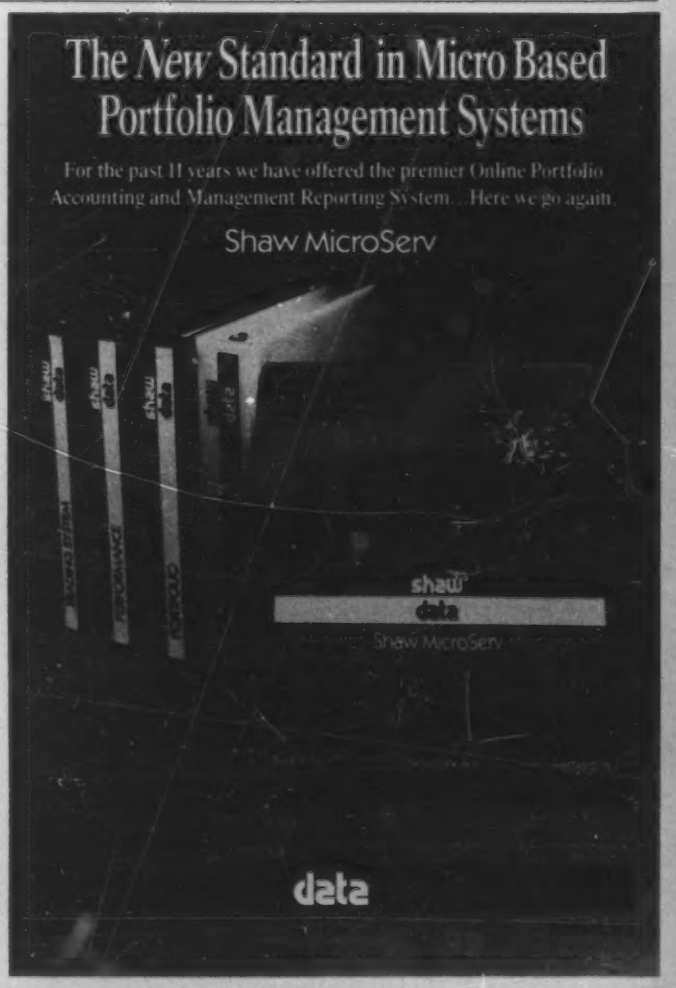
EBRI's Mr. Piacentini points out that for all the concern about reversions, they have involved only a small share of the 240,000 corporate defined benefit plans.

David M. Walker, assistant secretary of labor, said the Great Atlantic & Pacific Tea Co.'s termination in 1981 first heightened the awareness of the value of surplus pension assets.

Mr. Walker, who was acting executive director of the PBGC until 1985, also cited AM International Inc., Chicago, as another early astute user of terminations. It terminated both overfunded and underfunded plans, while it was in bankruptcy proceedings between 1982 and 1984.

AM International recaptured the surplus from one plan, but dumped the deficit from the other onto the PBGC. Jack Ambraister, senior vice president, secretary and general counsel of AM, said the company later made a settlement with the PBGC over the deficit plan. He couldn't recall the figures.

But Mr. Ambraister noted the reversion of the surplus "was very, very significant" in the company's successful reorganization. "Without the reversion, we would have had to give more equity to creditors and less to shareholders." ■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Investment Age

Texaco fight intensifies

Chairman Alfred DeCrane, noting he has been in charge for less than two years, vows a special effort to gain the confidence of Texaco's investors.

By Marcia Parker

Texaco Inc. management and corporate raider Carl Icahn have stepped up 11th-hour appeals to institutional investors, the pivotal players in deciding the bitter, too-close-to-call proxy battle for control of the company.

Interviews with more than 24 of Texaco's largest institutional investors uncovered eight — representing several million shares of Texaco — that will support management at Friday's annual meeting. But only the California Public Employees' Retirement System, which owns about 763,000 shares, agreed to publicly reveal its position. Many others were undecided or would not reveal their decisions.

At least six others said they support Mr. Icahn. Several said they would vote for him not because they prefer his offer over Texaco's restructuring, but because they are angry with Texaco's board for not allowing shareholders to vote on Mr. Icahn's offer.

One large money manager with significant Texaco holdings said his firm is reviewing a vote for Texaco management that the firm cast prior to Mr. Icahn's $60 per share offer. He said a final decision hadn't been made, but the firm is "leaning toward supporting Mr. Icahn."

Several money managers and pension fund executives said they felt almost under siege as they fielded a flurry of calls on behalf of Texaco and Mr. Icahn.

"It's my impression there's a high degree of pressure being brought to bear on this Texaco situation," one money manager said. "Texaco management is pulling out all the stops to get their friends to vote for them."

Pensions & Investment Age interviewed Texaco Chairman Alfred DeCrane and Mr. Icahn last week. Both men, confident of victory and convinced their respective plans for Texaco are in the best interests of stockholders, lobbied hard for institutional support.

Some investors, meanwhile, have extracted promises from management in return for their support, an unusual move that represents a significant expansion of the growing activism of many institutional investors.

After at least two face-to-face meetings with Texaco management in recent weeks, Dale Hanson, executive director of the California fund, secured in writing a "personal commitment" from Texaco Chief Executive Officer James Kinnear to discuss procedures for choosing the board of directors in time for possible implementation by Texaco's 1989 meeting. Together they would try to develop a mechanism to allow shareholders to nominate their own candidates to a minority of board seats.

If that proposal is worked out, it would be the first time shareholders have had that opportunity. It could go a long way toward extending their influence in corporate affairs.

In another first, an advisory committee of large, long-term Texaco institutional investors is being set up by the California pension fund "to provide Texaco with a responsible, stable

Continued on page 37

DOL requests voting records

WASHINGTON — Carrying through on its vow to step up monitoring of proxy voting, the Department of Labor last week sent out letters to money managers seeking voting records in dozens of companies — including Gillette Co. — with significant proxy disputes in 1988.

Charles Lerner, director of enforcement, confirmed the letters had gone out and the department requested results on a number of proxy votes. He declined to elaborate, citing the department's long-standing policy of not commenting on pending investigations.

A number of money managers and pension fund executives — none of whom wished to be identified — said they had received the letter and planned to provide the requested information. The department indicated in the letter it would use its subpoena power if investors did not comply voluntarily.

Sources in the investment and legal community said the Labor Department initially has targeted institutional investment managers in five regions — New York, Boston, Chicago, Los Angeles and San Francisco — that held large blocks of stock on behalf of tax-exempt funds in specific companies that had significant proxy disputes.

A complete list of the targeted proxy contests could not be obtained by press time, and it appears the list of com-

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The thrill of victory

Tallies reveal two 'firsts'

By Marcia Parker

Activist institutional investors are savoring victory in 1988, having scored more significant triumphs on shareholder resolutions dealing with corporate governance issues than ever before.

First of a two-part series

The average shareholder vote for anti-poison pill proposals at 18 companies was 38.2% this year, nearly nine percentage points higher than last year's totals, according to the Investor Responsibility Research Center Inc., Washington.

The votes supporting rescission of poison pills or putting them to a shareholder vote ranged from 26.3% to 61.1%, excluding abstentions. And shareholders at Sante Fe Southern Pacific Corp. overwhelmingly approved a proposal to eliminate the company's poison pill, the only anti-poison pill resolution ever passed.

Five anti-greenmail proposals averaged support of 28.4% this year, compared with a 12.9% average for two proposals last year. One proposal — at Gillette Co. — was approved, the first such proposal to pass.

Secret-ballot proposals fared well considering this was the first year they were a major issue and, therefore, some institutions had not developed voting policies. Nine confidential-voting proposals averaged 9.9% of the shares voted. Three companies agreed to voluntarily implement confidential proxy voting in response to shareholder proposals.

Five resolutions calling for shareholder access to the proxy statement averaged support of 8.78%.

"The message of all this seems to be that shareholders

Continued on page 37

The California Teachers' fund withdrew an anti-greenmail plan for Dayton-Hudson because of existing provisions in state law.

LATE NEWS

PacTel picks pension executive

SAN FRANCISCO — Richard P. McGahan has been named director of pensions at Pacific Telesis Group, San Francisco, replacing Jeffrey Winter, who was promoted to executive director-investment management, in February.

Mr. McGahan will handle all investment policy of the $8.5 billion pension fund. Prior to joining PacTel, Mr. McGahan was vice president-client service at Fred Alger Asset Management Inc., San Francisco. Until mid-1986, he was manager-pension investments at Monsanto Co., St. Louis.

He said he is returning to the pension sponsor side of the industry "because it is the area I have the most interest in. PacTel is a great company."

Change urged in New York law

NEW YORK — New York state should adopt a prudent-investor rule and drop its legal list requirement to allow greater diversification, according to the state's Permanent Commission on Public Employee Pension and Retirement Systems.

Alternatively, the legal list should be liberalized to expand the state's "basket clause" to 25% of assets from 7.5%, the commission wrote in a report submitted to the Legislature last month. That clause permits investment in assets not on the list, such as foreign securities, leveraged buy-outs, venture capital, mortgages and real estate.

The state investment law affects eight retirement systems of the state and New York City, with combined assets of $85 billion.

A study prepared by Buck Consultants Inc., New York, submitted with the commission's recommendations, said the systems soon will reach the 7.5% limit.

Pennsylvania ups foreign bonds

HARRISBURG, Pa. — The $8 billion Pennsylvania State Employes' Retirement System has increased the amount it will allow a manager to invest in international bonds, said Kenneth G. Mertz II, chief investment officer.

Miller, Anderson & Sherrerd, Bala Cynwyd, Pa., which manages $1 billion in fixed-income assets for the fund, now can put up to 20% in foreign bonds, up from 10%. The program has been in effect since 1985.

The fund is very pleased with "the greater opportunities and diversification it gives us," Mr. Mertz said.

The system is studying whether to go into international equities, he said.

Yale taps international manager

NEW HAVEN, Conn. — The Yale University endowment has hired Grantham, Mayo, Van Otterloo & Co., Boston, to manage $100 million in international equities, and has appointed Morgan Stanley Trust Co., New York, as a global custodian.

The international manager will weight countries in the portfolio according to relative gross domestic product, instead of market capitalization, which is traditionally used to weight international index funds, sources said.

To save on transaction costs, Yale acquired a slightly smaller portfolio that Grantham, Mayo, Van Otterloo had managed for General Electric Co., which had brought its money in-house.

The Yale fund totals $1.74 billion, according to the 1988 Money Market Directory.

State Street hired to run GICs

MCKEESPORT, Pa. — G.C. Murphy Co. hired State Street Bank and Trust Co., Boston, to manage a guaranteed investment contract portfolio for its $18 million 401(k) plan, said Rich Rose, director of compensation and benefits.

Mr. Rose said the separately managed GIC account will total about $7 million initially as existing contracts expire and are rolled into the account.

He said all GICs in the salary reduction program will be managed by State Street because of consolidation of the plans of G.C. Murphy and Ames Department Stores Inc., Rocky Hill, Conn. Ames acquired Murphy in 1985.

Moore gets new duties at Aetna

HARTFORD, Conn. — T. Jerald Moore, president of Aetna Capital Management Co., has been named vice president-Eastern region, insurance marketing and administration for Aetna Life & Casualty Corp.

The area covers traditional insurance products, alternative health services, client servicing, and new product marketing and pricing.

Mr. Moore, who will start his new duties July 5, will retain his current title of vice president-employee benefits division.

His successor as head of the pension and financial service marketing department has not been named.

DEPARTMENTS

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Futures recovering from crash injuries

By Trudy Ring

Optimism is creeping back into the derivatives markets, as volume on exchanges worldwide slowly rises and industry leaders ease their post-crash criticisms.

Granted, volume in the Standard & Poor's 500 stock index futures, the most popular contract for institutional use, still is down more than 40% from year-ago levels. But exchange officials and both proponents and opponents of the strategies believe the instruments will make a comeback.

"Statistically, we're about where we were in 1986," exchange spokesman Andrew Yemma said. "If you take the point of view that 1987 was an abnormal year, we're basically pretty well positioned for further growth in the product."

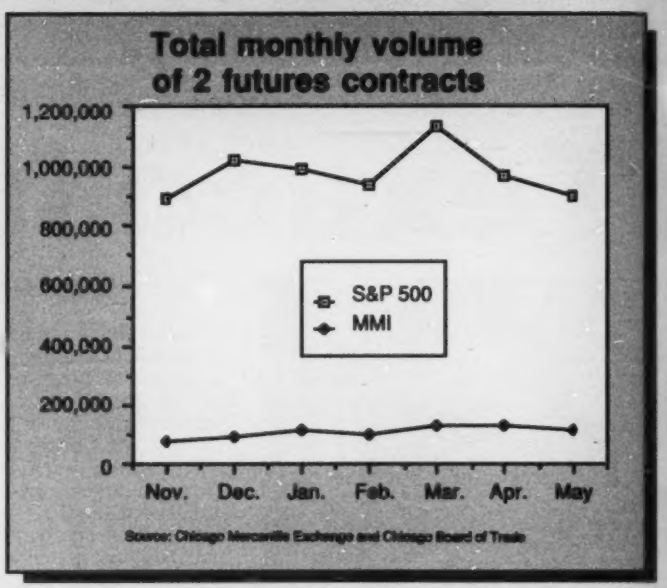
Alger B. Chapman, chairman of the Chicago Board Options Exchange, said activity in options and futures is down about the same amount as stock volume, once volume attributed to dividend plays is deducted from stock figures.

"I haven't found that the volume has been poor enough to hinder any of the strategies we use," said Jeffrey Geller, vice president of BEA Associates Inc., New York. BEA, with $7.2 billion in tax-exempt assets under management, uses futures heavily.

Mr. Geller added he believes stocks and derivatives are one market. "The futures volume is really just echoing the lack of liquidity in the equity market today," he said. "I don't believe the tail can ever wag the dog."

"If you're asking if the futures markets will persist and grow,

Continued on page 35



Taking a worldly view

$100 million fund starts global allocation strategy

By Marlene Givant

WALTHAM, Mass. — The $100 million Dennison Manufacturing Co. defined benefit retirement plan is embarking on a global tactical asset allocation strategy, incorporating hedging with futures, options and currencies.

Global tactical asset allocation is rare among pension funds, and almost non-existent among funds the size of Dennison's.

The $40 billion California Public Employees' Retirement System, Sacramento, made a similar decision late last year; that mammoth fund, however, initially will invest only 1% to 2% overseas. In contrast, Dennison's new strategy will put the fund 20% in global investments, a significant amount for any fund, especially one with $100 million.

Dennison is restructuring its portfolio and will base the fund's asset mix on the asset allocation strategies of two managers it just hired.

"We feel that (asset allocation) expertise should be left with the experts . . . That's why we're giving managers latitude," said Karen Edlund, pension and employee stock ownership plan manager of Dennison. The company manufactures paper, stationery products and industrial products such as fasteners and provides data processing and marking systems for retailers.

"When we talked to (international management) candidates we listened to their models and strategies, and that convinced us they could enhance returns when given more flexibility."

Both of the asset allocators the fund hired — Mellon Capital Management, San Francisco, and WorldInvest Ltd., London — may hedge, and they have no asset class targets to meet.

"The desire to further diversify the fund into international and extend the duration of the pension portfolio to better match liabilities" prompted the restructuring, Ms. Edlund said. Bond

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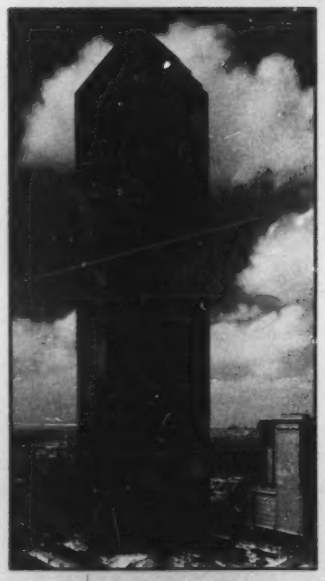

First RepublicBank is the latest bank to leave the benefit record-keeping services area.

Texas bank cuts record keeping

By Fred Williams

DALLAS — The decision by First RepublicBank to drop its employee benefit record-keeping program was made to save money and save face, and was not directly related to problems stemming from the bank's troubled loan portfolio, according to bank and industry officials.

First RepublicBank, which announced its decision in a letter to clients last month, is the most recent of several large banks to leave the record-keeping business.

At least eight major banks have quit the business in the past two years, including Security Pacific National Bank, Continental Illinois National Bank & Trust Co. and Manufacturers Hanover Trust. Experts say banks are trying to reduce costs and return to core trust services, and they lack a commitment to the complex area.

Lou Valentino, consultant and manager of the defined contribution practice for the Wyatt Co., New York, said the pull-out "is a function of how the organization perceives the business and whether they are committed. No one is interested in providing a loss-leader."

He said record keeping is expensive and complex: "In the record-keeping area there are hundreds of things to worry about, and numerable permutations of things that can go wrong. It is inherently complex."

Gail Kellogg, partner and practice leader for defined contribution plan administration at Hewitt Associates, Deerfield, Ill.,

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Funds, advisers assail SEC plan

By Brad Rudin

Public pension plans and the sponsors of closed-end real estate funds have blasted a proposed change in Securities and Exchange Commission rules that would prevent many public funds from investing in the real estate funds and other private placements.

The proposed rule would disqualify state and local government pension plans from accredited investor status unless plan officials delegate investment responsibility for private placements to a bank, savings and loan, insurance company or registered investment adviser.

Currently, such responsibility may be retained by fund officials without losing accredited investor status.

A public pension plan also would be disqualified unless it established fiduciary principles that were the same as, or similar to, those contained in the Employee Retirement Income Security Act of 1974.

Issuers are allowed to sell private placements without going through complicated registration procedures only to qualified investors.

Several critics said the SEC is trying to get around Congress' 14-year-old decision to exclude public funds from ERISA.

They also said the proposal would limit arbitrarily the investment options held by public funds.

"Why should we be restricted in not being able to buy things that are advantageous to the pension fund?" asked Bobby J. McKee, general manager of the Kentucky Retirement Systems, Frankfort. "We're here to make money for our constituents."

Mr. McKee and other public fund officials voiced their criticism in comment letters to the SEC last month.

"This is an important investment for public pension funds," said Keith Johnson, acting general counsel of the State of Wisconsin Investment Board, Madison. "It's been an especially lucrative investment for us, and we don't want to be in a situation where the basis upon which we're qualified to make these investments under the securities laws is put into question."

Critical letters also came from officials of the Chicago Policemen's Annuity & Benefit Fund and the Los Angeles County Employees' Retirement Association.

The SEC proposed the new definition of an accredited investor in March; the comment period expired May 13.

It remains unclear when the commission will take action on the proposal.

If adopted, the rule would modify Regulation D, which provides safe-harbor exemptions from federal securities law disclosure requirements.

The proposed rule change also affects the sponsors of commingled closed-end real estate funds that depend in large measure on public pension funds.

For example, public funds invested about half of the capital for Heitman Advisory Corp.'s four closed-end real estate funds since 1984, said David Glickman, president of Chicago-based Heitman. Other managers have similar percentages of public fund money, he added. ■

CORRECTIONS & CLARIFICATIONS

- **Oppenheimer Capital** was incorrectly identified in the May 23 money managers' profile issue.
- **Cullen Bank**, Houston, Texas, was omitted inadvertently from the May 16 PIPER equity five-year listings. The bank returned 18% for the period, putting it in the top decile.
- The names of **Dennis Brush** and **Michael J. Connelly**, managing directors at **Lepercq, de Neuflize & Co.**, New York, were transposed in a photo caption in the May 16 Financing section.

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